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TAGS: [ECON](#) [ETRD](#) [EINV](#) [KIPR](#) [PREL](#) [TH](#)
SUBJECT: THAI TELECOMS: FINANCE MINISTER KORN'S PLAN TO BREAK THE 3G
STALEMATE

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1. (SBU) SUMMARY: The Thai government has repeatedly delayed the auction and licensing of third generation (3G) telecommunications services -- largely because of disagreements over how to deal with the two state-owned telecommunications operators, TOT and CAT, and the private providers that have concession contracts with them. TOT and CAT collect an estimated \$1.8 billion a year in concession fees from the private mobile phone companies; how to ensure that the Thai government will continue to see this revenue stream after the introduction of 3G has been a primary concern and one of the reasons for the repeated delay of the 3G auction. However, according to several contacts in the telecom industry, Finance Minister Korn Chatikavanij may have finally brokered a concession conversion deal that would satisfy the various stakeholders and allow the 3G auction to move forward. Some issues still remain however, such as whether the National Telecommunications Commission even has the authority to issue 3G licenses.

2. (SBU) SUMMARY CONT'D: The eventual rollout of 3G will provide numerous business opportunities for American companies, such as Qualcomm and Motorola, to provide equipment and services on the new platform. Perhaps more important are the opportunities in other sectors of the Thai economy that will also benefit from 3G, including retail businesses, financial services, and media and entertainment -- all areas where American companies have strong competitive advantages. END SUMMARY.

3. (SBU) COMMENT: Concession conversion has been on the Thai government's plate of options for many years, but no one has found the right recipe to make a deal palatable to the various stakeholders. Most telecom insiders have doubted that TOT and CAT would ever agree to concession conversion terms since both would lose their stream of revenue sharing payments and be forced to compete with the private companies. However, several of our telecom contacts believe that Finance Minister Korn's new plan just may work this time. Korn first and foremost wants a level playing field that would encourage investment in the sector. The current stakeholders, including TOT and CAT, will likely negotiate for better terms under Korn's scheme, but the plan should still move forward. If this proves successful, the concession conversion, and more importantly the eventual introduction of 3G telecom services (a feat that every previous government has tried but failed to accomplish), will be a major political victory for the Abhisit team. END COMMENT.

A Tale of Two Telcos

14. (SBU) As Thailand's economy boomed in the 1980s, the two state-owned telecommunications enterprises proved unable to meet the country's growing demand for mobile phone services. The Telecommunications Organization of Thailand (TOT) had provided domestic fixed line services since the 1950s, while the Communications Authority of Thailand (CAT) was established in the 1970s to provide international long-distance services. Beginning in the late 1980s when the demand for cellular phones took off, TOT and CAT struck numerous deals with private telecom companies to provide mobile phone services on the state-owned frequencies. Today, Thailand's three main mobile operators (AIS -- which was once one of former Prime Minister Thaksin's companies, DTAC and True) still depend on these arrangements (called concessions) for their business operations.

15. (SBU) While the terms of each concession differ, the private companies agreed to pay between 20 and 30 percent of their total revenues to TOT or CAT in exchange for the use of the frequencies. The private companies also agreed to install the required infrastructure at their own expense but transfer the ownership of these assets to TOT and CAT at the end of the concession period (as part of a Build-Transfer-Operate (BTO) contract). The private companies retained the rights to use the equipment for the agreed period of time.

16. (SBU) These concession arrangements, all of which are scheduled to expire within the next eight years, generate an estimated \$1.8 billion for the state-owned TOT and CAT each year. Industry contacts tell us that only about 10 percent of these revenues actually ends up in the Ministry of Finance coffers however. (COMMENT: While some of the money is used to finance the overly large, inefficient operations of TOT and CAT, several of our contacts believe that a significant portion of the cash lines the pockets of not only TOT and CAT executives but probably many politicians as well. END COMMENT.)

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17. (SBU) Regardless of where the concession payments end up, this revenue stream remains one of the major obstacles to Thailand's 3G deployment. Government officials, as well as executives at TOT and CAT, worry that after the private operators obtain new 3G licenses, they will move their subscribers over to the concession-free networks, significantly reducing the payments they make to TOT and CAT. This loss of revenue would force the state-owned enterprises to drastically change their business model.

Korn's Plan to Break the Stalemate

18. (SBU) As Finance Minister, Korn Chatikavanij oversees the revenue collection of the state-owned enterprises. After the government's failed attempt to jumpstart 3G deployment in 2009, Korn began to look for a solution to the impasse, particularly since TOT and CAT, which are under his purview as the Ministry of Finance technically owns the corporations, were seen as the major obstacles. In late November, Korn told the Financial Times, "We have a legacy of different concessions being given by different state agencies to different people on different terms." He continued, "We want to provide a standardization so that free and fair competition could exist and the private sector could have a greater level of confidence to make the kind of investments we want to see."

19. (SBU) After carefully reviewing the options, Korn has proposed a solution known as "concession conversion" -- the basics of which have been floated around by telecom insiders and government bureaucrats for many years. The government, as the sole owner of TOT and CAT, would convert the existing 2G concession contracts of the private operators (AIS, True, and DTAC) into new 15-year licenses with the government. TOT and CAT would also receive new licenses themselves for mobile operations and would be allowed to compete with the private operators (but this time on a more level playing field). In order to maintain the previous revenue flows into the government coffers, Korn will require all of the new licensees, including TOT and CAT, to pay 15 percent of their total revenues to the government as a fee or tax for the use of the frequencies. When

3G is introduced, this 15 percent fee would apply as well.

¶10. (SBU) TOT and CAT, which would still own the existing infrastructure and networks because of the original BTO contracts, would be required to permit third parties to access their assets at equal and reasonable prices -- another decision that further levels the playing field. With the concessions gone, the National Telecommunications Commission would become the sole regulator of the private and state-owned telcos.

¶11. (SBU) Korn tasked the State Enterprise Policy Office to draft the specifics for the concession conversion, a process which he hopes will take less than three months. Once the 2G spectrum issues are resolved, the government's telecom regulator could then auction and issue the 3G licenses to the highest bidders.

A Few Hurdles Still Remain

¶12. (SBU) In addition to the concession issues, the 3G auction has also been delayed due to a lack of a strong, independent regulatory authority to administer and issue the licenses. The Frequency Allocation Act of 2000 required the establishment of the National Telecommunications Commission (NTC) and the National Broadcast Commission (NBC), which would separately manage the broadcast and telecom spectrum, as well as develop regulations regarding their use. The NTC was established in 2004, but political infighting prevented the standing up of the NBC.

¶13. (U) The 2007 constitution added a new layer of confusion, however, when it called for the establishment of the National Broadcasting and Telecommunications Commission (NBTC), a combined FCC-style agency that would regulate all broadcast and telecom spectra, including the 2.1 GHz frequency for 3G. Questions then arose as to whether the existing NTC held the authority to issue regulations or licenses, or if the new NBTC must first be formed. The NTC sought the opinion of the Council of State, Thailand's legal advisory body, on its authority to issue licenses, but the Council has not yet issued a decision. In December, the Attorney General's Office weighed in on the matter and publicly stated that only the NBTC should have the authority to issue 3G licenses, based on their reading of the 2007 constitution.

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¶14. (SBU) Even if the question of the NTC's authority is resolved prior to the establishment of the new constitutionally-mandated NBTC, another stumbling block is the NTC's lack of quorum. Four of the seven commissioner seats are vacant. The government recently nominated and approved replacements, but the required royal endorsement was held up after corruption allegations surfaced about two of the four candidates.

¶15. (SBU) On a positive note, the draft legislation to create the 11-member NBTC is currently under review in Parliament. Industry contacts believe that the bill could be endorsed by both legislative houses as early as June 2010. If Korn's plan for concession conversion also succeeds, the government likely will expedite the setup of the NBTC, allowing the 3G auction and licensing to proceed without controversy.

Why This Matters to Us

¶16. (U) U.S. businesses have been eagerly awaiting the commercial opportunities that would come with the introduction of 3G. While no American companies currently provide mobile phone services in Thailand (nor have any shown an active interest in doing so), several U.S.-based telecom equipment providers are well-established in Thailand and will greatly benefit from 3G opportunities. Cisco and Motorola, for example, would likely compete for contracts to supply switches, routers, and other equipment to build out the new 3G networks. Qualcomm hopes many of Thailand's 60 plus million mobile phone owners will upgrade to new 3G-capable phones that use Qualcomm chips.

¶17. (U) Many American firms are also excited about the multiplier effects that 3G will likely have in the Thai economy. The broadband penetration rate is currently estimated at only 2 percent, but the introduction of 3G services, particularly since the mobile phone penetration rate is nearly 100 percent, will greatly improve the population's access to broadband services. A recent study by the London-based LECG consulting group posited that the introduction of 3G could generate economic gains of more than \$9 billion over the next five years across multiple sectors, including retail, financial services, and media (sectors where American companies have traditionally held strong competitive advantages). In particular, US companies that develop software and content for mobile applications, such as videoconferencing, internet connectivity, gaming, banking, and advertising, will clearly benefit from the 3G upgrade. Computer manufacturers, and firms that provide computer components such as Intel, also anticipate a sales surge in computers, such as netbooks, that can connect wirelessly to the internet over 3G networks.

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